

**USAID/Armenia**

**Annual Report**

**FY 2004**

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## Armenia

### Performance:

Background: Armenia is politically and economically isolated as a result of the Nagorno-Karabakh (NK) conflict, which resulted in Azerbaijan and Turkey maintaining an economic blockade against Armenia. The blockade has a large negative impact on Armenia's economy and its prospects for growth, even though some highway and rail traffic continues across the borders with Iran (on the south) and Georgia (to the north), and a small amount continues with Turkey through Georgia. Successful resolution of the situation would allow the reopening of trade routes, making Armenia more attractive to potential investors. Since 1992, when USAID began providing assistance to Armenia, the focus has shifted increasingly from humanitarian assistance to development assistance. USAID now concentrates its efforts on helping Armenians achieve a stable, open democracy and a law-based market economy.

Despite steady macroeconomic progress, reflected in consistently high growth and low inflation rates, the poverty rate has not improved significantly. Half of Armenians live below the poverty line, with 16% considered extremely poor, spending less than \$22 a month. Government data show an increase of 15.2% percent in gross domestic product (GDP) for the first nine months of 2003. The International Monetary Fund estimates that approximately half of the high growth rate in 2003 was due to unusually high donor financing, while growing exports and deepening import substitution account for the remainder. Armenia's twelve-month inflation rate rose to 7.5% in September 2003, from 2% at the end of calendar year 2002. This largely reflects a 17% increase in the price of bread (which has an 18% weight in Armenia's consumer price index) between June and September. The current account balance has weakened, but the exchange rate has been stable. Merchandise exports grew by 40% in the first half of the year, driven by growth in processed diamonds, agricultural products and non-ferrous metals. Imports, though, grew by 50% in the same period, with substantial increases in raw diamonds and equipment.

In the political sphere, flawed elections have contributed to widespread public cynicism. The government's inability to address many key social safety net issues and the lack of citizen involvement in the policy dialogue process have sustained this cynicism. Flaws were evident in presidential elections in 1996, 1998, and 2003 (in which the incumbent was re-elected with 67.5% of the vote), and in parliamentary elections in 2003. The coalition that supports the president won a large majority in the 2003 parliamentary elections. Opposition leaders have accused the dominant party of numerous and widespread election irregularities. Criticisms were voiced even by some leaders of some smaller parties in the governing coalition.

The dominance of the Executive branch of government (e.g., the President and Minister of Justice have substantial authority over the judiciary) has reduced competition in Armenia's political and economic spheres. As a result, rule of law is problematic, political parties are weak and the media are not truly independent. Corruption is undermining Armenia's economic, political and social reform process.

U.S. Interests and Goals. Since its independence, Armenia has emerged as a strategically important country in the Caucasus. U.S. national interests in Armenia, and in the larger Caucasus region, revolve around security, conflict resolution, internal reform and energy security. Its progress towards becoming a stable, European-oriented and democratic country with a transparent, market-based economy is important to U.S. security and economic interests in the region. A settlement of the ongoing conflict with Azerbaijan over the predominantly ethnic Armenian-populated enclave of Nagorno-Karabakh, and a rapprochement between Armenia and Turkey are both important U.S. foreign policy goals. U.S. ties to Armenia are many and varied, from the cultural bond of the large Armenian-American Diaspora community to diverse personal connections, commercial interests, and broader political relationships.

Challenges and achievements.

**Donor Relations.** USAID integrates coordination with the GOAM, other donors and private investors into its activities. This significantly increases the sustainability of progress toward development. USAID's relationship with the GOAM has matured substantially during the past 10 years. The GOAM has evolved from a passive recipient of assistance into a more demanding and responsible partner that works to coordinate and influence donor efforts. The GOAM now emphasizes development assistance, and has developed its Poverty Reduction Strategy Paper, into which it fits donor activities.

Other multilateral donors include the European Union (energy, legal reform, environment, macroeconomic policy, governance, education, transport, SME development, and information technology), the International Monetary Fund (macroeconomic policy), the United Nations network of agencies, e.g. UNDP (poverty reduction, democracy and governance, post-crisis management, infrastructure, and information technology), UNHCR (refugee support), UNICEF (health, education, and social sector), World Food Program, World Health Organization, the World Bank (WB) and the OSCE (anticorruption and elections). USAID also coordinates its activities with private donors active in Armenia, in areas as diverse as road construction, civil society, education, public health, culture, media, and judicial reform. Most donors participate in formal monthly donor meetings, co-chaired by the WB, UNDP and USAID.

**WTO Accession.** A wide range of structural improvements are subsumed in Armenia's formal accession to the World Trade Organization in February 2003. USAID provided substantial support to the GOAM to realize this ambitious objective, fostering Armenia's integration into the world economy. USAID continues to provide support to meet post-accession obligations.

**Environment Conducive for Business.** The number of active businesses in Armenia increased by 9.7% in FY2003, substantially exceeding the target of 5% growth. USAID has continued assistance in reforming tax and customs procedures, strengthening systems to promote efficient, effective collections and greater transparency. In a significant application of information technology to improve governance, web sites for the State Tax Service (STS) and the State Customs Committee (SCC) now provide businesses with access to laws, regulations and procedures that were previously difficult to access, and in many cases not available.

**Increased access to financial capital.** USAID contributed to several successful efforts to increase access to financial capital for businesses of virtually any size. The first financial leasing company was organized in Armenia. USAID supported this advance through technical assistance for enabling legislation, as well as assistance in the creation of the company with international investors, and continuing technical assistance. USAID has also begun a partial loan guarantee program that encourages Armenian banks to make commercial loans. These programs harness private sector resources, enhancing development sustainability in Armenia.

**Electricity Sector Privatization.** Armenia completed privatization of electricity distribution in FY2003, with USAID assistance. The privatized company Electricity Network of Armenia (ENA) adopted USAID recommendations on accounting, metering, billing and customer information to reduce non-payment and raise system efficiency significantly. USAID also continued to strengthen Armenia's energy regulatory commission, with technical support for procedures and rules based on modern meters and a new data acquisition system. Other administrative improvements included a two-part tariff for gas supply and a draft Uniform System of Accounts for the power sector.

**Key water laws and regulations revised and implemented.** USAID assisted with implementing regulations issued for the national Water Code (enacted in 2002) and for the Aarhus Convention ("The UNECE Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters", to which Armenia acceded in 2002). Four key water management institutions improved functionality in FY2003. The Hydrometeorological and Environmental Monitoring Agency (HEMA), the Water Resource Management and Protection Agency (WRMPA), the Natural Monopolies Regulatory Commission (NMRC), and the State Committee on Water Management (SCWM) enhanced their performance.

Civic Participation. USAID supports increased citizen participation in democratic governance in Armenia. The Non-Governmental Organization (NGO) Sustainability Index overall score for Armenia improved this year raising from 4.2 to 4. Progress was noted in organizational capacity, advocacy and infrastructure. USAID provided special initiative grants to election-related and human rights/rule of law activities. A two year effort by three NGOs working with National Assembly deputies and international organizations resulted in the passage of Freedom of Information Act. NGOs are actively working with citizens to ensure that their voice is heard in local government. In one of regional centers, NGOs carried out a public information campaign around the city Strategic Development plan and community input was incorporated into the plan. To raise youth awareness of local government and encourage civic activism among youth a regional NGO program provided 9th graders with month long internship opportunities in municipalities to shadow local government employees and learn about their work.

Governance. USAID efforts in support of local governments concentrated on establishing effective and transparent management systems and making local governments more responsive and accessible to citizens. Also, USAID assisted work to strengthen the legislature's institutional capacities; fiscal and administrative management in nine municipal governments were improved; broadcast and print media became more professional and businesslike; and NGOs' abilities to advocate for change increased considerably.

Overall, though, 2003 proved to be a challenging year for Armenia's democracy. The first and second round of presidential elections in February and March and parliamentary elections in May were marked by several irregularities, executive dominance was apparent as government officials campaigned for the incumbent and the pro-government parties, and state resources were utilized in support of the incumbent president. The judiciary allowed detention of opposition supporters, and public (as well as many private) television stations and printed media did not provide unbiased and objective coverage of the election process. USAID has adjusted its program to reflect this situation, continuing to support citizen participation and refocusing its efforts on government partners with demonstrated commitment to reform.

Social Insurance and Assistance. USAID continued its activities directed at establishing foundations for sustainable social and health insurance systems. There was progress on key elements of legislation in several areas: Pensions, health services disability, survivor insurance, personified reporting, and unemployment. In addition to progress on critical legislation, USAID provided assistance required for making the existing systems operational. In collaboration with World Bank and Government of Armenia (GOAM), USAID created the first Integrated Social Services Center that provides a one-stop shop for citizens requesting social services.

Health Reform. Work in primary health care reform continued with a focus on family medicine (FM) and reproductive health (RH). USAID supported improvements in the policy environment to primary care providers by working with the GOAM to develop the National Primary Healthcare Strategy and Pilot Implementation Decree that has passed all levels of government review and awaits ratification by the President. USAID also provided technical assistance for the recently passed legislation on RH and the draft National Health Policy for 2004-2008. A comprehensive clinical training program for primary healthcare providers in rural areas was implemented alongside the creation of four rural clinical practice training sites. To promote FM and test new financing and patient enrollment systems, three polyclinic pilot sites were launched. In July 2003, the Ministry of Health approved the Unified Family Medicine Curriculum developed with USAID support, which will be used to strengthen post-graduate and undergraduate educational institutions in the training of family medicine providers.

USAID's health partnership program focuses on improving community-based primary health care through partnerships involving US hospitals, universities, communities and their counterparts in Armenia. Resources from U.S. private organizations and local governments are brought together with USAID assistance under this program. A regional primary healthcare center offering expanded preventive services and screening tests opened as a result of one such partnership.

Vulnerability alleviation. USAID also provides immediate services to vulnerable populations, including

children and elderly. To mitigate the impact of transition to market economy for these groups, USAID provides urgently needed medical and nutritional services. Under these programs a total of 11,391 schoolchildren received daily lunches covering 30% of daily recommended caloric intake per child. Mobile medical teams provided consultations to villages in Lori and Gegharkunik marzes. Short term public works projects supported by USAID improve local communities while also providing a much needed source of income. Renovation and construction of two town parks, five water pipelines, six kindergartens, two sport centers, three cultural centers and a hospital was complete providing much needed infrastructure to community members.

**Earthquake Zone (EQZ) Recovery.** The EQZ Program has directly helped over 3,000 families move into permanent housing, with hundreds more in process. Most of those assisted had lived in “domics” (temporary shelters, often made from converted shipping containers) for years. During FY2003 the program issued 2,298 housing certificates and 1,541 were redeemed to purchase permanent housing, building on the substantial progress in FY2002. Progress in urban redevelopment, an integral aspect of the program, continued. 1,384 “domics” were removed, clearing space for redevelopment. In April 2003, the Shirak Development Center (SDC) opened. The SDC, housed in the marz government building, actively promotes investment and tourism in the marz and also provides information through its web site. In September, the City of Gyumri held a festival to celebrate its progress in recovery from the earthquake. Special notice was taken of the efforts of the EQZ Program to promote community participation in identifying public uses for the All Savior's and Freedom Squares, located in the heart of the city.

Large scale housing construction and renovation programs funded by the Lincy Foundation and housing assistance to smaller numbers of people such as refugees (through UNHCR and Norwegian Refugee Council) have helped significantly to clear program sites and facilitate reuse. The All Armenia Fund, the United Nations High Commissioner for Refugees (UNHCR), the United Nations Development Program (UNDP), the Norwegian Refugee Council, the Jinishian Memorial Foundation, the Huntsman Foundation, the Lincy Foundation, and the U.S. Agency for International Development (USAID) are working together in Armenia's Earthquake Zone. Alliance partners contribute cash or resources worth more than twice USAID's contribution.

**Conflict risk and program implications.** Armenia continues with a low risk of conflict. Large crowds have gathered on multiple occasions to protest the 2003 presidential and parliamentary elections, but there has been no significant civil disturbance. A cease-fire has held in the NK conflict since 1994, the conflict has not been resolved. With the border closures, Armenia's prospects for transition to a vibrant market economy are rather limited. A peaceful resolution and reopened borders would profoundly influence development programming not only in Armenia, but in the broader region. Closed land borders to the east and west, coupled with the difficulties of transit through Georgia or Iran, require that exports have high value per weight. This practical requirement is reflected in USAID programs.

**Gender.** The Mission has long mainstreamed gender, integrating gender consideration into each activity. Disproportionate emigration of males, and (formally) universal conscription for young males who remain, spur relevant, but not critical, gender dynamics. Gender does not present critical issues for Armenia, although gender issues are as pervasive as elsewhere in the former Soviet Union.

**Trade Capacity Building.** USAID supports trade capacity building with assistance to the GOAM in structural reform as well as technical assistance for businesses to encourage their participation in world markets. A wide range of structural improvements are subsumed in Armenia's formal accession to the World Trade Organization (WTO) in February 2003. USAID provided substantial support to the GOAM to realize this ambitious objective, fostering Armenia's integration into the world economy. USAID, in coordination with other USG agencies, the World Bank, and the WTO, continues to provide support to meet Armenia's post-accession obligations. Technical assistance to businesses is coordinated with the U.S. Department of Agriculture Marketing Assistance Program in Armenia, as well as with the European Union, a target market for exported goods.

**Country Close and Graduation:**

## **Results Framework**

### **111-0130 Growth of a Competitive Private Sector**

#### **SO Level Indicator(s):**

Increase in number of active legal persons and entrepreneurs

Private sector share of GDP

**1.3.1** Policy, Legal and Institutional Environment Conducive to Private Sector Activity

**1.3.2** Access to Financial Capital Increased

**1.3.3** Increased Capacity of Private Enterprises in Selected (Sub) Sectors to Conduct Business

### **111-0150 A More Economically and Environmentally Sustainable Energy Sector**

#### **SO Level Indicator(s):**

Electric energy, thermal energy and gas consumption per unit of GDP

Electric sector collected income as per cent of approved revenue requirement

Financial losses of the electric sector arising from non-payment and excess line losses expressed in dollar terms

Number of key identified laws/regulations revised and/or drafted

**1.5.1** Increased Private Sector Participation

**1.5.2** Increased Economic and Environmental Efficiency

**1.5.3** More Diversified Energy Sources

### **111-0160 More Sustainable Water Management for Enhanced Environmental Quality**

#### **SO Level Indicator(s):**

Number of key identified laws/regulations revised

Number of specific water quality and/or quantity indicators improved at specific locations

Selected Armenian water management institutions functioning effectively

**1.6.1** National Policy and Institutional Framework for Water Management Improved

**1.6.2** Selected Water Quality and Quantity Monitoring Systems Rehabilitated

**1.6.3** Stakeholder Participation in Integrated Water Resources Management Increased

### **111-0210 More Transparent, Accountable and Responsive Democratic Governance**

#### **SO Level Indicator(s):**

Adoption and implementation of laws and policies needed for democratic governance (Governance Index)

Freedom house assessment of democratization (Democratization)

Freedom house assessment of rule of law (Rule of Law)

**2.1.1** Increased Citizen Participation in Policy Development and Oversight of Government

**2.1.2** Availability of Multiple Sources of Information and Analysis

**2.1.3** More Responsive and Effective Local Government

**2.1.4** More Effective and Responsive Parliament

**2.1.5** Transparent, Dependable and Effective Legal System

### **111-0320 Increased Access to Sustainable, High Quality Primary Health Care Services**

### **111-0340 Mitigation of the Adverse Social Impacts of the Transition**

#### **SO Level Indicator(s):**

Infant mortality rate

Percent of households classified as very poor

**3.4.1** Foundations in Place for Sustainable Social and Health Insurance Systems

**3.4.2** Improved Mobilization, Allocation, and Use of Social/ Healthcare Resources

**3.4.3** Short-term employment Available in Selected Regions

**3.4.4** Nutrition, Shelter and Primary Healthcare Services Provided

### **111-0410 Households Living in Inadequate Shelter as a Result of the 1988 Earthquake Reduced**

**4.1.1.1** Housing certificate program component implemented in targeted areas



**4.1.1.2** Potential of housing improvements grants as a means of meeting the housing needs of earthquake displaced is assessed

**4.1.1.3** Redevelopment in target areas is accelerated

**111-0411 Households Living in Inadequate Shelter as a Result of the 1988 Earthquake Reduced**

**111-0420 Cross-Cutting Programs**